

The Federal Simultaneous Oil and Gas Leasing System

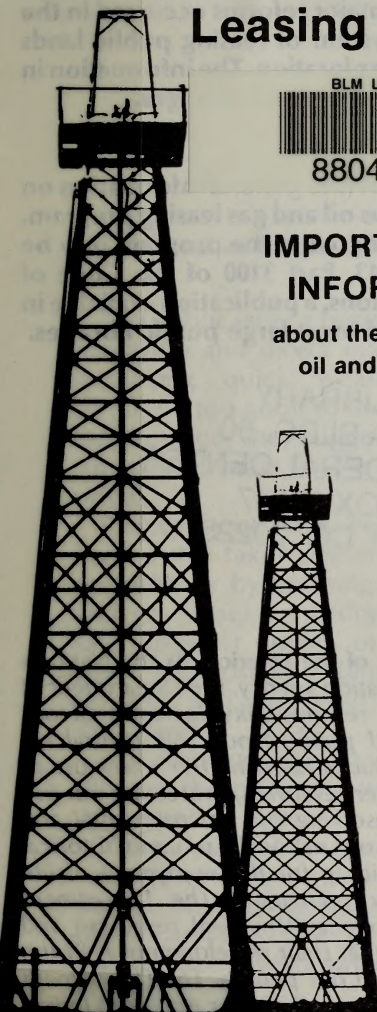
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IMPORTANT NEW INFORMATION

about the "Government
oil and gas lottery"



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**U. S. Department of the Interior
Bureau of Land Management**

In Spring 1980, major reforms occurred in the simultaneous system of leasing public lands for oil and gas exploration. The information in this booklet reflects these changes.

This booklet provides general information on the simultaneous oil and gas leasing program. Regulations that govern the program may be found in Title 43, Part 3100 of the Code of Federal Regulations, a publication available in law libraries and most large public libraries.

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U.S. Department of the Interior. *As the Nation's principal conservation agency, the Department of the Interior has responsibility for most of our nationally owned public lands and natural resources. This includes fostering the wisest use of our land and water resources, protecting our fish and wildlife, preserving the environmental and cultural values of our national parks and historical places, and providing for the enjoyment of life through outdoor recreation. The Department assesses our energy and mineral resources and works to assure that their development is in the best interests of all our people. The Department also has a major responsibility for American Indian reservation communities and for people who live in Island Territories under U.S. administration.*

This publication is distributed as a public service by the U.S. Department of the Interior's Bureau of Land Management. Specific information on the subject is available from any Bureau of Land Management Office. Your inquiries, comments, and suggestions are welcome.

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The public faces a barrage of newspaper, magazine and direct mail advertisements promising quick wealth and fortune through "too good to be true" opportunities. You too, they suggest, can realize this American Dream for the asking—and for a price.

Perhaps you have been among those invited to take advantage of such an opportunity by entering a drawing for oil and gas leases on Federal lands. The ads say: write for details, or send a check to cover the cost of a filing fee and other services, and have your name entered in the drawing.

Is it really possible to strike it rich? How slim are the odds and what are the risks? What are the facts?

The purpose of this booklet is to acquaint you with the reality and procedure of the Bureau of Land Management's Simultaneous Oil and Gas Leasing System, commonly called the "Government Oil and Gas Lottery."

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TYPES OF LEASES

The Bureau of Land Management (BLM) issues two types of leases for oil and gas exploration and development on lands owned or controlled by the Federal Government: *competitive* and *noncompetitive*. Competitive leases are issued for Federal lands within the known geologic structure of a producing oil and gas field as determined by the U.S. Geological Survey. Such leases are issued to the qualified applicant who offers the highest bid.

This publication is about *noncompetitive* leases. This kind of leasing is done through the Simultaneous Oil and Gas Leasing System. Lands that are not within any known geologic structure of a producing oil and gas field, commonly known as "wildcat" lands, are subject to leasing to the first qualified person making application for a lease. Such a lease is termed noncompetitive since the applicant is entitled to the lease without competitive bidding. Most Federal oil and gas leases are obtained through noncompetitive leasing procedures.

When noncompetitive leases expire, terminate, or are relinquished or canceled, the land becomes available for re-leasing. Before 1960, these tracts were offered on a first-come, first-served basis. When particularly promising tracts were due to be posted as available, long lines formed at the land offices. Fights often broke out, disrupting business and, in some instances, injuring employees trying to control the crowds. The simultaneous oil and gas lease drawing was developed to establish an orderly and fair system of awarding these noncompetitive leases.

LOCATION OF TRACTS

Many tracts offered for noncompetitive leasing are in the Western States where most of the public land is located. These are the States of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming. On rare occasions, a few tracts in Washington and Oregon are offered.

Tracts in the Midwest and East are also put up for noncompetitive leasing. The tracts are primarily in Alabama, Arkansas, Florida, Louisiana, Michigan, Mississippi, and Ohio.

In Alaska, resumption of noncompetitive leasing for oil and gas exploration must be further delayed until public lands in the State are first apportioned among the Alaska natives, the State, and various Federal agencies in accordance with the Alaska Native Claims Settlement Act, the Alaska Statehood Act, and other statutes.

HOW THE DRAWINGS WORK

Each State Office of the Bureau of Land Management prepares and posts a list of lands within its jurisdiction that are available for re-leasing. These tracts range in size from 40 acres up to a maximum of 10,240 acres. These lists may be viewed in the State Offices or obtained from the State Offices by mail for a small charge, usually \$2 to \$5 per list. (The BLM State Offices and their areas of jurisdiction are listed at the end of this booklet.)

If any lands are available for re-leasing, the BLM State Office posts its list on the first day of business for the months of January, March, May, July, September, and November. Applications are accepted until the close of business on the 15th working day after the list is posted. If more than one application is received for a given tract, a drawing is held to decide who will get the lease.

QUALIFICATIONS AND LIMITATIONS

Federal oil and gas leases may be obtained and held by any citizen of the United States; however, no lease may be acquired by a minor, but it may be issued to a legal guardian or trustee in behalf of a minor. Associations of citizens and corporations organized under the laws of the United States or of any State also qualify.

Aliens may not hold any interest in leases, except they may own or control stock in corporations holding leases, if the laws of their country do not deny similar privileges to citizens of the United States.

No person, association, or corporation may hold, own, or control oil and gas leases—competitive and/or noncompetitive—for more than 246,080 acres in any one State.

HOW TO FILE

Applications may be filed on any of the parcels shown on the list posted in the BLM State Office. The parcel applied for must be

identified by the number shown on the list.

Each offer to lease must be submitted on an official application card (Form 3112-1), which is available free from any BLM State Office. The application card must be fully completed and personally signed (in ink) and dated by the applicant, or anyone authorized to sign on behalf of the applicant, *during* the filing period (15 working days after the list of available tracts is posted). If anyone other than the applicant signs the application, he/she *must* set forth, along with his/her own signature, the name of the applicant and the relationship between them (example: *Smith, agent for Jones; or Jones, principal, by Smith, agent*).

Each application must be accompanied by a nonrefundable \$10 filing fee in U.S. currency, Postal Service or bank money order, or bank cashier's check or certified check made payable to BLM. *Personal checks are not accepted.*

Each application must contain the address of the applicant. *Addresses of third parties filing on behalf of the applicant are not permitted.*

An applicant may file, or have an interest in, only one application card for *any one* parcel; however, an applicant may file, or have an interest in, one application card each for as many different parcels as he or she wishes.

THE DRAWING

After the close of the filing period on the 15th working day after the list is posted, a public drawing or computer-generated random selection is conducted at the BLM State Office. Because of the heavy volume of application cards that must be processed in some State offices, the public drawing or selection by computer might not occur until the following month.

The drawing determines the priority of the offers. Three application cards are drawn for each parcel, and the order in which they are drawn fixes their order of priority. BLM notifies the applicant whose card is drawn first, and the applicant is given 30 days to pay the first year's rental, computed at \$1 per acre

or any fraction thereof. Should an applicant whose card is selected first fail to pay the first year's rental or be otherwise disqualified, applicants whose cards are selected with second and third priorities will be considered in that order.

Unsuccessful applicants are notified by the return of their application cards.

CHOOSING A PARCEL—FILING SERVICES

How does an applicant determine which of the offered parcels are worth considering? Again, it should be remembered that these lands have been leased previously and are not known to contain deposits of oil or gas. Generally speaking, lands situated near areas that are being actively drilled or from which production is being obtained are likely to be more favorable for exploration. However, neither the Bureau of Land Management nor any other Federal agency can make any recommendation concerning the potential value of any parcel offered for noncompetitive leasing. A decision to offer to lease any parcel appearing on the list is the sole responsibility of the applicant.

Many applicants use a "filing service" to select parcels. Some of these services charge a fee to evaluate parcels on the basis of geological and marketing data; others offer maps and information about the activities of oil companies operating in the area where the various parcels are located. A third type of filing service charges a fee for selecting an economically promising tract from the list posted by the Bureau and assisting the applicant in filing his application card.

Neither BLM, nor any other Federal agency, endorses any filing service. *None is connected in any way with the Federal Government.*

Be wary of filing services that paint an overly optimistic picture of your chances of making money. Consider that these firms may file for hundreds and even thousands of clients on the limited number of desirable parcels, and the more interest these firms can generate in drawings, the more cards will be filed on each parcel, and the less chance each

individual will have of obtaining a lease.

The names of firms or individuals that specialize as filing services may be located through business or professional associations; through oil and gas trade publications, chambers of commerce, State industry development agencies; and from friends who have used similar services in the past. Some firms also advertise in business and sports magazines, through the mail, and on the business pages of newspapers. They sometime are listed under the heading "Federal Leasing Services" in the yellow pages of telephone directories.

Anyone considering the use of a filing service should carefully examine what services are offered and how big a premium is being charged beyond the required \$10 filing fee that must be paid to BLM for each filing. In evaluating a filing service, your best bet is to ask for a reference list of others who have dealt with the firm or individual, and then to follow up by contacting these references. It is also a good idea to insist on references or credentials that will attest to the expertise of the person who will select the land parcel for which your application card will be filed.

Other possible sources of information on a filing service are the Better Business Bureau in the area where the firm is located and the State or local consumer office. State consumer offices are located, in most cases, in the State capital. Local offices are listed in the telephone directory under the city or county government. *A word of caution:* Just because you can find no record of consumer complaints on a company does not mean it is reputable. Be persistent and wary in your use of filing services.

Applicants who employ filing services are required to submit a copy of the contract and a statement as to any other understanding they have with the filing service. Filing services may submit such statements for the applicant, but it is the applicant's responsibility to ensure proper filing. Failure to file such statements properly will result in the rejection of an application or offer, or lease cancellation, if one has been issued.

LEASE TERMS AND CONDITIONS

The lease grants the lessee exclusive rights to explore and drill for, extract, remove, and dispose of oil and gas deposits, except helium, that may be found in the leased lands. Such leases are issued for a 10-year period and so long thereafter as oil and gas are produced in paying quantities. The oil and gas lease conveys no surface rights other than the right to develop those resources on the leased land. The lessee cannot build a house on the land, cultivate the land, or remove any minerals other than oil and gas from the leased land.

Special restrictions on use of the leased parcels for oil and gas development are set forth in the list of available tracts prepared by the BLM State Office. The leases are granted on the condition that an environmental assessment will be made before permission is granted to conduct any drilling activities. It is BLM's responsibility to assure that such an operation is environmentally acceptable and will not adversely affect or interfere with the use and administration of the land for other purposes.

Before any drilling operation can commence, the lessee or his operator must furnish a bond of \$10,000 to assure compliance with all the lease terms, including protection of the land during operations from fire, pollution, etc., as well as plugging any abandoned wells.

WHAT IS THE LEASE WORTH?

The value of oil and gas leases varies greatly. None of the tracts offered has known potential for oil and gas production. In certain cases, noncompetitive leases have brought substantial profit to the winners. These are leases in "hot" areas; that is, they were near known oil and gas development. Generally, however, these leases average only a few dollars per acre if resold.

SELLING OR ASSIGNING A LEASE

Most people who acquire an oil and gas lease through the simultaneous leasing system do not intend to drill for oil or gas. The usual motive for entering the drawing is to sell their lease to an oil company or independent contractor for a profit.

If the lease is located in a "hot" area, interested buyers will probably make an offer or offers. If the lease is located in a more speculative area, the lessee may have to search for a buyer.

A willing buyer will usually offer a lump sum for the lease. In some cases, the original lessee can negotiate to retain a royalty interest in any future production from the lease.

When the lease has been sold, there is no further income from the lease to the former owner unless he has retained the royalty interest—or percentage of the income. On the average, such retained royalty ranges from two to three percent. If a buyer is interested in the lease, asking for a royalty that's reasonable will sometimes speed up a sale, while asking for a royalty that's too high may adversely affect the sale.

No *assignment* of a lease may be filed before the lease is issued by BLM. No *agreement to assign* a lease may be made before the lease is issued, or before 60 days after the drawing, whichever is sooner. *Any assignment entered into as a result of an agreement which violates these restrictions will be disapproved.* These restrictions are intended to allow all interested parties an equal opportunity to negotiate for the lease

and to protect applicants from being unduly influenced to enter into agreements to make transfers not in their best interest.

TERMINATION OF A LEASE

Oil and gas leases acquired through the simultaneous system expire at the end of their 10th year unless a well producing paying quantities of oil and gas has been developed. Leases without a producing well also expire at any time the lessee fails to make full and timely payment of the annual rental of \$1 per acre to the proper BLM office. This automatic termination is prescribed by law and cannot be waived. The rental must be received by the proper BLM office on or before the anniversary date of the lease. The land in such terminated leases will not be available for re-leasing until posted on a subsequent bi-monthly list.

The owner of a lease also may surrender the lease in whole or in part by filing a written relinquishment with the proper BLM State Office. A relinquishment takes effect on the date it is filed. The lessee must plug any abandoned wells and perform other work as may be required by the U.S. Geological Survey to place the leasehold in proper condition for abandonment. If the lessee fails to perform the necessary work, the surety on the lessee's bond will be required to do so.

A lease may be canceled administratively by the U.S. Interior Department for failure of the lessee to comply with the requirements of the Mineral Leasing Act, the applicable regulations, or the terms of the lease, if a valuable deposit of oil and gas has not been discovered on the land. Leases for lands where valuable deposits have been discovered may be canceled only by judicial proceedings.

CAUTION

Any person who considers entering the oil and gas drawing should keep certain facts in mind:

- The land offered for leasing was formerly included in oil and gas leases that expired, terminated, or were relinquished or canceled.
- The land involved is not recognized as being within a known geological structure of a producing oil or gas field.
- Your offer to lease is strictly a gamble. Since a very large percentage (90%) of the tracts won are never drilled on, your parcel may not have any potential for oil and gas even if you win the drawing.
- Your chances of winning the drawing may be remote. In 1979, for example, roughly 4 million people filed for about 7,000 tracts.

WHAT YOU DO NEXT

After carefully reading this pamphlet, if you wish to participate in the drawings on your own, here is how to proceed: Select the geographical area of the United States that interests you. Using the listing of BLM State Offices at the end of this pamphlet, locate the BLM State Office that is responsible for the geographical area you have selected. Write that State Office for information. The State Office will send you application cards and tell you how much it will cost you to receive by mail the first list from which you must select your tracts for the drawing.

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STATE OFFICES
U.S. DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

ARIZONA:

2400 Valley Bank Center
Phoenix, AZ 85073

CALIFORNIA:

Federal Building, Room E-2841
2800 Cottage Way
Sacramento, CA 95825

COLORADO:

Colorado State Bank Building
1600 Broadway
Denver, CO 80202

**STATES EAST OF THE MISSISSIPPI RIVER, PLUS
IOWA, MINNESOTA, MISSOURI, ARKANSAS
AND LOUISIANA:**

Eastern States Office
350 S. Pickett St.
Alexandria, VA 22304

IDAHO:

Federal Building, Room 398
550 West Fort Street
P.O. Box 042
Boise, ID 83724

**MONTANA, NORTH DAKOTA AND
SOUTH DAKOTA:**

222 N. 32nd Street
P.O. Box 30157
Billings, MT 59107

NEVADA:

Federal Building, Room 3008
300 Booth Street
Reno, NV 89509

NEW MEXICO, OKLAHOMA AND TEXAS:

U.S. Post Office and Federal Building
P.O. Box 1449
Santa Fe, NM 87501

OREGON AND WASHINGTON:

729 N.E. Oregon Street
P.O. Box 2965
Portland, OR 97208

UTAH:

University Club Building
136 East South Temple
Salt Lake City, UT 84111

WYOMING, KANSAS AND NEBRASKA:

2515 Warren Avenue
P.O. Box 1828
Cheyenne, WY 82001



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Simultaneous Oil
Leasing System

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The Federal Simultaneous Oil
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